



MINUTES OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

For the meeting held on
Tuesday, December 17, 2013 at 2:00 pm
980 9th Street, Conference Center, 2nd Floor
Sacramento, California 95814
and
68-1107 Honokaope Place
Kamuela, Hawaii 96743

Chairman Michael E. Rossi called the meeting of the California Infrastructure and Economic Development Bank (I-Bank) Board to order at approximately 2:05 p.m.

1. Call To Order and Roll Call.

The following Board members were in attendance:

Eraina Ortega, represented the Director of the Department of Finance.
Blake Fowler, represented the State Treasurer.
Brian Annis, represented the Secretary of the State Transportation Agency.
Peter Luchetti, Governor's appointee.

The following Board member participated telephonically:

Michael E. Rossi, Chairman

The following I-Bank staff members were in attendance:

Teveia Barnes, Ruben Rojas, Marilyn Muñoz and Elizabeth Hess.

Upon calling the meeting to order, Chairman Rossi delegated facilitation of the meeting to Vice Chairman Luchetti for the remainder of the meeting.

Information Item[s]

2. Executive Director's Report.

Executive Director Teveia Barnes provided the following report:

- The I-Bank met with Standard and Poor's, Fitch and Moody's rating agencies in connection to the ISRF Refunding and is expecting to receive ratings for the Refunding Bonds in the coming weeks.
- Timing for the ISRF Refunding is as follows: posting of the Preliminary Official Statement is scheduled for the week of January 6, 2014; pricing is scheduled for January 13th, and closing for February 3, 2014.

Consent Item[s]:

3. Approve minutes from the meeting held on November 19, 2013.

Vice Chairman Luchetti called for questions or comments from the Board and the public on the minutes. Hearing none, he entertained a motion to approve this consent item. Ms. Ortega moved to approve the minutes and Mr. Luchetti seconded the motion. The Board unanimously approved the minutes.

Action Item[s]:

4. Resolution No. 13-20 approving issuance of tax-exempt obligations, in an amount not to exceed \$25,000,000, to be sold through a private placement to refund outstanding bonds originally issued by the ABAG Finance Authority for the benefit of Marin Academy and to provide additional funds to finance an eligible project located in the City of San Rafael.

Marin Academy has requested that the I-Bank act as issuer for an amount not to exceed \$25 million of tax-exempt 501(c) (3) conduit bonds to be used to refinance existing bonds, provide funds for soft costs and design fees as well as provide a portion of the construction costs for a science building; pay and/or reimburse the Marin Academy for miscellaneous expenditures related to the acquisition, construction, improvement and furnishing of certain properties located adjacent to or near the campus. The conduit bonds would not be publicly offered but instead would be purchased directly by First Republic Bank. Ms. Hess introduced Mike Joyce, Chief Financial Officer for Marin Academy, Cregg Baumbaugh, Trustee for Marin Academy and Sean Tierney, Partner with Hawkins Delafield & Wood.

Vice Chairman Luchetti called for any questions or comments from the Board. The following discussion occurred.

Discussion

- The necessity of a \$25 million bond issuance was questioned by the I-Bank Governing Board. This issue surfaced because the Board learned that First Republic's commitment was for \$20 million.
- The Governing Board proposed a bond issuance of \$22 million, which would be \$2 million above the current First Republic commitment amount. This would reflect the industry standard for construction contingency.
- Mr. Rossi asked if the staff was comfortable that they had enough data to understand Marin Academy's ability to repay the bonds.
- Mr. Luchetti expressed reservation as to whether anticipated endowments would materialize.

Response

- Mr. Tierney explained that the \$25 million was requested to match the amount approved at the TEFRA Hearing for the project and that the TEFRA approval is good for three years. As such, Marin Academy wanted to have the option to rely on the TEFRA approval amount without coming back to the I-Bank Board.

- In response to Mr. Rossi, Ms. Barnes responded that the staff had sufficient data to make the determination regarding Marin Academy's ability to repay the bond.
- In response to Mr. Luchetti, Ms. Munoz explained that for conduit bonds such as those proposed for the Marin Academy, no State or I-Bank funds are involved. Rather, the party taking the risk of any payment defaults or lower than expected endowments would be First Republic Bank and not the I-Bank.
- Marin Academy acknowledged that the requested bond issuance exceeds First Republic's commitment amount. The rationale for the additional monies was explained as a reserve for related projects within the scope of the TEFRA approval and or additional construction contingency. Further, the Academy desired to avoid additional issuance costs which it would incur should it have to return to the I-Bank for approval of an additional bond.
- Understanding the I-Bank's Governing Board's rationale, Marin Academy accepted the reduced bond issuance amount of \$22 million.

Vice Chairman Luchetti called for any additional questions or comments from the Board or the public. Hearing none, he entertained a motion to amend the resolution to an amount not to exceed \$22 million. The Board unanimously approved the amendment.

Vice Chairman Luchetti then entertained a motion to approve Resolution No. 13-20 as amended. Ms. Ortega moved to approve the resolution and Mr. Luchetti seconded the motion. The Board unanimously approved the resolution.

- 5. Resolution No. 13-21 (a) authorizing the issuance of the Infrastructure State Revolving Fund program (ISRF Program) revenue bonds in one or more series in an amount not to exceed \$120,000,000 and utilizing the proceeds to (i) refund one or more series of outstanding ISRF Program revenue bonds, (ii) make loans to finance eligible projects under the ISRF Program, and (iii) fund costs of issuance and other related uses; and (b) take other actions relating thereto.**

A staff report was presented which requested authorization to issue fixed-rate tax-exempt ISRF Program bonds to refund the I-Bank's outstanding ISRF Program bonds, finance and refinance loans to eligible borrowers, fund the reserve fund and pay costs of issuance. The issuance of the ISRF Program bonds is expected to enhance the I-Bank's ability to continue to provide, through the ISRF Program, low-cost, long-term financing for a variety of infrastructure and economic expansion projects throughout the state.

Vice Chairman Luchetti called for any questions or comments from the Board. The following discussion occurred.

Discussion

- Ms. Ortega initiated a discussion about the equity fund and inquired about the need and reasoning for the "set aside" of \$45 million.
- Mr. Fowler requested amendments to the proposed resolution;
 1. The addition of a condition precedent to the issuance of the 2014 bonds; the 2008 bonds will not be downgraded as a result of the proposed issuance.

2. Clarifying language in Section 2 of the proposed resolution to specify that the authorized funds to be transferred can be used for the ISRF Program to make loans, pay debt service, replenish reserve funds and pay costs and fees associated with the bonds, however, that so long as these funds are on deposit with the Trustee, they may not be used to pay operating costs of the I-Bank.

Response

- Ms. Barnes explained that the proposed structure demonstrates to the rating agencies a commitment by the I-Bank and Governing Board to further develop and grow the ISRF Program. Moreover, background information was provided which described the effort to eventually upgrade the credit rating on the ISRF Program bonds.
- In response to Mr. Fowler's first request, Ms. Barnes agreed to the condition to the issuance of the 2014 Bonds that the rating of the 2008 Bonds would not be adversely affected.
- In response to Mr. Fowler's second request, Ms. Barnes agreed and requested to add language to the resolution to include the payment of costs and fees associated with the bonds as another ISRF Program authorized use.

Vice Chairman Luchetti called for any additional questions or comments from the Board or the public. Hearing none, he entertained a motion to amend the resolution to include a condition precedent to the issuance of the 2014 Bonds, that the 2008 Bonds would not experience a credit downgrade as a result of the transaction, as well as, adding clarifying language in Section 2 that specifies utilization of the authorized funds. The Board unanimously approved the amendment.

Vice Chairman Luchetti then entertained a motion to approve Resolution No. 13-21 as amended. Mr. Luchetti moved to approve the resolution and Mr. Rossi seconded the motion. The Board unanimously approved the resolution.

6. Resolution No. 13-22 approving a form of financing application for the Infrastructure State Revolving Fund Program (ISRF Program) and adopting an interest rate setting methodology for loans made under the ISRF Program.

A staff report was presented to approve a revised financing application as well as to adopt an interest rate setting methodology for the ISRF Program. The financing application has been revised to be consistent with the recently modified Criteria, Priorities and Guidelines. The interest rate setting methodology is designed to achieve a number of goals; (i) mitigate the risks of lending to unrated borrowers, (ii) increase attractiveness of the ISRF Program, (iii) allow for a variety of subsidies, (iv) ensure long term ISRF viability and (v) achieve said goals in a manner that is based on publicly available pricing data.

Vice Chairman Luchetti called for any questions or comments from the Board. The following discussion occurred.

Discussion

- Mr. Fowler requested additional information pertaining to the proposed ISRF application. Mr. Fowler requested clarification as to why certain components had been removed from the previous form of the application.

- Mr. Annis requested additional information pertaining to the interest rate subsidies and the Governing Board requested that the Rate Setting Methodology be amended to state that “declared emergencies” would be eligible for an interest rate subsidy.
- Mr. Fowler entertained a discussion on how unrated and/or nonprofit borrowers would be accommodated relative to the use of the proposed Rate Setting Methodology.
- Mr. Fowler requested that the Rate Setting Methodology be periodically reviewed to ensure that it is aligned with program objectives.
- Mr. Luchetti requested that the two items (ISRF application and interest rate setting methodology) be bifurcated and provided individual resolution numbers.

Response

- Ms. Barnes, Mr. Rojas and Ms. Munoz explained that the application was serving a modified purpose and would be utilized as a tool to initiate discussions with the applicants and would not be the end of the I-Bank requests. Ms. Barnes and Mr. Rojas further emphasized that the application was revised to accommodate an enhanced user friendly format and assured the Governing Board that all pertinent fiscal and credit information would still be required of the applicant.
- Ms. Barnes provided an explanation of the interest rates subsidies which include consideration of the employment rate and medium household income levels of the applicant as well other extenuating circumstances.
- Ms. Munoz responded that Resolution 13-22 could be split into Resolution 13-22 for the Application Form and Resolution 13-23 for the Rate Setting Methodology.
- In response to the inquiry regarding the rate setting methodology for unrated and nonprofit entities, it was agreed that a taxable scale application would be available for utilization in connection with the Rate Setting Methodology.

At this point, Mr. Rossi had to depart and did not participate in the rest of the meeting and did not vote.

Vice Chairman Luchetti motioned to separate the financing application and the interest rate setting methodology into separate resolutions, 13-22 and 13-23, respectively.

Vice Chairman Luchetti called for any questions or comments from the Board or the public. Hearing none, he entertained a motion to approve Resolution 13-22. Mr. Luchetti moved to approve the resolution and Mr. Annis seconded the motion. The Board voted as follows: Ms. Ortega: Aye, Mr. Fowler: No, Mr. Luchetti: Aye, Mr. Annis: Aye, Mr. Rossi did not participate in the rest of the meeting and did not vote.

Vice Chairman Luchetti called for any questions or comments from the Board or the public. Hearing none, he entertained a motion to amend and approve Resolution 13-23 to include the use of declared emergency under the subsidies section and the use of a taxable scale. Mr. Luchetti moved to approve and Mr. Annis seconded the motion. Mr. Rossi did not participate in the rest of the meeting and did not vote. The remaining Board members unanimously approved the amendment and resolution.

Reporting\Non-Action Item[s]:

7. I-Bank Monthly Investment Transaction Report for Month Ending November 30, 2013.

Other Non-Action Business.

Vice Chairman Luchetti called for any other business; there was none.

Public Comment.

Vice Chairman Luchetti called for any public comment; there was none.

Adjournment.

Vice Chairman Luchetti declared the meeting adjourned at approximately 3:45 p.m.